



Mr David Mokoena
Accounting officer
West Rand District Municipality
Private Bag 19
Randfontein
1760

19 December 2014

Dear Mr Mokoena

Report of the Auditor-General on the consolidated financial statements and other legal and regulatory requirements of West Rand District Municipality for the year ended 30 June 2014.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. I have not yet received the other information that will be included in the annual report with the audited consolidated financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited consolidated financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the consolidated financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format if needed.
 - The report must please be referred to the Municipal Public Accounts Committee.

- Please send 10 copies of the annual report to the Auditor-General of South Africa for attention Stakeholder Liaison Manager, 61 Central Street, Houghton.
6. Please notify the undersigned Acting Deputy Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.
 7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Yours sincerely



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Acting Deputy Business Executive: Gauteng

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Report of the Auditor-General to the Gauteng Provincial Legislature and the Council on the West Rand District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the West Rand District Municipality and its entity set out on pages xx to xx, which comprise, the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I could not trace the assets from the floor to the asset register. The municipality's records did not permit for alternative procedures. As a result the property, plant and equipment was misstated and I could not quantify the misstatement. Consequently, I was unable to determine whether any further adjustment to property, plant and equipment stated at R76 271 859 in the financial statements was necessary.

Accumulated surplus

7. The consolidated annual financial statements did not reconcile to the separate annual financial statements and trial balance. There was a difference of R7 506 847 between the consolidated and separate annual financial statements. There was also a difference of R9 645 259 between the consolidated annual financial statements and trial balance. In addition, I was unable to obtain sufficient appropriate audit evidence regarding changes in the accumulated surplus for the following financial statement items included in the consolidated statement of changes in net assets:

- Changes in tax expense amounting to R1 428 815
- Changes in deferred tax amounting to R436 658
- Movement in net asset amounting to R126 851

Consequently, I was unable to determine whether any further adjustment to the accumulated surplus stated at R33 620 423 in the financial statements was necessary.

Government grant reserve

8. I was unable to obtain sufficient appropriate audit evidence regarding the government grant reserve amounting to R3 833 428 due to supporting documents not submitted for audit. I was unable to perform alternative procedures to substantiate the government grant reserve. Consequently, I was unable to determine whether any further adjustment to the government grant reserve stated at R3 833 428 in the financial statements was necessary.

Aggregation of immaterial uncorrected misstatements

9. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the consolidated and separate statement of financial position, statement of financial performance and the notes to the financial statements:
- Depreciation and amortisation reflected as R13 915 415 was overstated by R500 627.
 - Receivables from exchange transactions reflected as R1 703 236 was overstated by R526 193.

- Payables from exchange transactions reflected as R17 793 801 was understated by R539 639.
10. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:
- Payables from exchange transactions of R249 121 as included in the disclosed balance of R17 793 801.
 - Receivables from exchange transactions of R265 887 as included in the disclosed balance of R1 703 236
 - Deferred tax of R758 814 as included in the disclosed balance of R758 814.
 - Inventories of R163 617 as included in the disclosed balance of R702 924.

As a result, I was unable to determine whether any further adjustment to these items was necessary.

Qualified opinion

11. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the West Rand District Municipality and its entity as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the MFMA.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

13. With reference to note 58 to the consolidated financial statements, the municipality is the defendant in a number of legal claims. The ultimate outcome of the matters cannot presently be determined. Consequently no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

14. As disclosed in note 48 to the consolidated financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of the West Rand District Municipality during the year ended 30 June 2014.

Material impairments

15. As disclosed in note 14 to the consolidated financial statements, material impairments to the amount of R4 562 898 (2013: R21 496 576) were incurred on trade receivables of R5 959 912 (2012-13: R27 365 556) as these trade receivables were considered doubtful. The impairment represents 77% (2012-13: 78%) of the total trade and other receivables from exchange transactions.

Additional matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

19. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the West Rand District Municipality for the year ended 30 June 2014:
- Development Priority 1 – Regional planning and economic development pp xx-xx
 - Development Priority 2 – Health and social development pp xx-xx
 - Development Priority 3 – Public safety services pp xx-xx
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting

principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters.
26. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and performance reports

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(2) of the MFMA.

Asset management

28. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 96(2)(a) of the MFMA.

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

30. The municipality and its entity did not adequately perform oversight of financial reporting, resulting in material adjustments required to the financial statements.
31. The municipality and its entity developed a plan to address audit findings, but adherence to the plan on financial statement reporting was not monitored on a timely basis by the appropriate level of management, resulting in a number of findings relating to material misstatements and non-compliance with the MFMA.

Financial and performance management

32. The preparation and review processes for financial and performance reporting were inadequate, resulting in material adjustments to the consolidated financial statements.

Governance

33. The audit committees, risk management committees and internal audit did not promote accountability and recommend corrective action effectively. Monitoring of the internal control environment, including financial reporting and compliance with legislation, was not effective to prevent findings relating to material misstatements and non-compliance with the MFMA.

Auditor General

Johannesburg

19 December 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence